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KO YO ECOLOGICAL AGROTECH (GROUP) LIMITED
玖源生態農業科技(集團)有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 8042)

**PLACING OF EXISTING SHARES
AND
SUBSCRIPTION OF NEW SHARES
AND
RESUMPTION OF TRADING**



First Shanghai Securities Limited

Placing Agent

On 22 May, 2008, the Vendors entered into the Placing Agreement in relation to the placing of up to 1,000,000,000 Placing Shares at the Placing Price of HK\$0.17 per Placing Share, and the Placing Agent agreed to, on a best effort basis, place up to 1,000,000,000 Placing Shares. The 1,000,000,000 Placing Shares represent approximately 18.54% of the Company's existing issued share capital of 5,394,400,000 Shares and approximately 15.64% of the issued share capital as enlarged by the Subscription of 1,000,000,000 Subscription Shares. The Placing Agreement is subject to certain conditions (as set out below).

On 22 May, 2008, the Vendors also entered into an agreement with the Company to, subject to certain conditions (as set out below), subscribe for the Subscription Shares at the Subscription Price of HK\$0.17 per Subscription Share.

It is expected that the net proceeds after deduction of related expenses from the Placing and the Subscription shall be approximately HK\$165 million and are intended to be further applied for the future investment in the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC.

The Company has applied to the GEM Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares.

After completion of the Placing, the aggregate shareholding of Mr. Li and Mr. Yuan, being parties acting in concert under the Code, in the Company will decrease from approximately 61.00% to approximately 42.47%. Immediately upon completion of the Subscription, the aggregate shareholding of Mr. Li and Mr. Yuan will increase to 51.46%. Pursuant to Rule 26 of the Code, Mr. Li and Mr. Yuan will be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by them upon completion of the Subscription Agreement as their aggregate shareholding interest in the Company will increase more than 2% within 12-month period as a result of the Subscription. Accordingly, an application has been made to the SFC for the Waiver.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 23 May, 2008 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m. on 26 May, 2008.

THE PLACING

Parties

- (1) the Company;
- (2) the Vendors; and
- (3) the Placing Agent.

The Placing Shares

An aggregate of up to 1,000,000,000 existing Shares in the aggregate nominal value of HK\$20 million, of which Mr. Li agreed to sell up to 900,000,000 Placing Shares and Mr. Yuan agreed to sell up to 100,000,000 Placing Shares. The Placing Agent

agreed to, on a best effort basis, place up to 1,000,000,000 Placing Shares. The 1,000,000,000 Placing Shares represent approximately 18.54% of the Company's existing issued share capital of 5,394,400,000 Shares and approximately 15.64% of the issued share capital as enlarged by the Subscription.

The Placee(s)

The Placing Agent expects that there will be not less than six Placees, who will be independent professional, institutional and private investors selected and procured by or on behalf of the Placing Agent. The Directors confirm that the Placees will not act in concert with Mr. Li and Mr. Yuan.

Each Placee (and its ultimate beneficial owner(s), if applicable) shall be independent of and not connected with nor parties acting in concert with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules) or the Vendors.

The Placing Price and the Placing Commission

The Placing Price of HK\$0.17 per Share was arrived at after arm's length negotiation between the Company, Vendors and the Placing Agent with reference to the market condition. The Placing Price represents a discount of approximately 15.00% to the closing price of HK\$0.20 per Share as quoted on the Stock Exchange on 22 May, 2008 (the last trading day prior to the publication of this announcement), a discount of approximately 16.17% to the average closing price of approximately HK\$0.2028 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 22 May, 2008, a discount of approximately 14.53% to the average closing price of approximately HK\$0.1989 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 22 May, 2008.

The net asset value of the Company as at 31 December 2007 was RMB587,440,382. In view that the net asset value per share was RMB0.1089 (i.e. HK\$0.1237, where translation of RMB into HK\$ is based on the exchange rate of HK\$1.00 = RMB0.88), the Placing Price of HK\$0.17 per Share represents a premium of approximately 37.43% to the net asset value per Share as at 31 December 2007.

A placing commission of 2.5% of the Placing Price, which was arrived at after arm's length negotiation between the Company, the Vendors and the Placing Agent with reference to the market condition, will be paid to the Placing Agent in relation to the Placing. The Directors (including the independent non-executive Directors) are of the view that the placing commission is fair and reasonable. The net Placing Price after deducting the placing commission and relevant expenses is approximately HK\$0.165 per Placing Share.

Rights of the Placing Shares

The Placing Shares are sold free of all liens, charges and encumbrances, claims, options and third-party rights and together with all rights attaching thereto as at the date of completion of the Placing, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after the date of completion of the Placing.

Completion of the Placing

Completion of the Placing shall take place on 28 May, 2008 (or such other date and time as may be agreed between the Vendors and the Placing Agent).

Termination of the Placing

The Placing Agent shall be entitled by notice in writing to the Vendors and the Company at any time prior to the completion date of the Placing to terminate the Placing Agreement if:

- (a) there has come to the notice of the Placing Agent:-
 - (i) that any statement contained in the Placing Announcement was when the Placing Announcement was issued, or has become, untrue, incorrect or misleading in any material respect;
 - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Placing Announcement, constitute a material omission therefrom;
 - (iii) any of the undertakings, warranties or representations contained herein becomes untrue or incorrect in any material respect;
 - (iv) any material breach of any of the obligations imposed upon any party to this Agreement (other than the Placing Agent);
 - (v) any of the undertakings, warranties and representations set out in this Agreement would not be true in any material respect if given at that time; or
 - (vi) any material adverse change in the business or in the financial or trading position of any member of the Group taken as a whole which is material in the context of the Placing; or

- (b) there develops, occurs or comes into effect:-
- (i) any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date of the Placing Agreement), including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions in the PRC (including Hong Kong) and which in the reasonable opinion of the Placing Agent would materially prejudice the success of the Placing;
 - (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on GEM due to exceptional financial circumstances or otherwise and which, in the reasonable opinion of the Placing Agent, would materially prejudice the success of the Placing;
 - (iii) any change in conditions of local, national or international securities markets occurs which in the reasonable opinion of the Placing Agent would materially prejudice the success of the Placing;
 - (iv) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, or the PRC or any other jurisdiction relevant to the Company and/or its Subsidiaries and if in the reasonable opinion of the Placing Agent any such new law or change would materially and adversely affect the business or financial prospects of the Group and/or materially prejudice the success of the Placing;
 - (v) a change or development involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or the PRC or elsewhere which will materially and adversely affect the business or the financial or trading position of the Group as a whole or which would, in the reasonable opinion of the Placing Agent, materially prejudice the success of the Placing; or
 - (vi) the instigation of any litigation or claim of material importance by any third party against any member of the Group, which has or may have a material adverse effect on the business or financial prospects of the Group and which in the reasonable opinion of the Placing Agent would materially prejudice the success of the Placing.

THE SUBSCRIPTION

Parties

- (1) the Company; and
- (2) the Subscribers.

Number of Subscription Shares

An aggregate of up to 1,000,000,000 new Shares, of which Mr. Li agreed to subscribe for up to 900,000,000 Shares and Mr. Yuan agreed to subscribe for up to 100,000,000 Shares. The 1,000,000,000 Subscription Shares represent approximately 18.54% of the existing issued share capital of the Company and approximately 15.64% of the issued share capital of the Company as enlarged by the Subscription. The respective number of Subscription Shares to be subscribed by Mr. Li and Mr. Yuan will not exceed the respective number of the Placing Shares sold by them under the Placing Agreement.

The Subscription Price

The Subscription Price of HK\$0.17 per Share is equivalent to the Placing Price.

The cost incurred as a result of the Placing and the Subscription is expected to be amounted to approximately HK\$5 million and will be borne by the Company.

General Mandate to issue new Shares

The Subscription Shares will be issued and allotted under the General Mandate granted to the Directors at the AGM. Based on the total number of Shares in issue on the date of the AGM, which was 5,394,400,000 Shares, the maximum amount of Shares to be allotted and issued pursuant to the General Mandate is 1,078,880,000 Shares. The Company has not issued any Shares pursuant to the General Mandate as at the date of this announcement.

An application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in up to 1,000,000,000 Shares to be issued pursuant to the Subscription.

Ranking of the new Shares

The Subscription Shares will upon issue rank *pari passu* in all respects with the then existing Shares including the right to receive all dividends and distributions declared, paid or made on or after the date of completion of the Subscription.

Conditions of the Subscription

Completion of the Subscription is conditional upon, among others:-

- (a) completion of the Placing having occurred pursuant to the terms of the Placing Agreement; and
- (b) the listing of, and permission to deal in the Subscription Shares being granted by the GEM Listing Committee of the Stock Exchange (and such permission and listing not subsequently being revoked prior to the delivery of definitive share certificate(s) representing the Subscription Shares); and
- (c) if necessary, the Subscribers having obtained the Waiver.

If any of the conditions of the Subscription is not fulfilled on or before 4 June, 2008 (or such later date as may be permitted by the Stock Exchange and agreed between the parties), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate.

Completion of the Subscription

Completion of the Subscription will take place on the Business Day immediately after the date upon which the last of the above conditions shall have been satisfied or such later time and/or date as may be agreed in writing between the Company and the Subscribers and as may be agreed by the Stock Exchange. If completion of the Subscription does not take place on or before 5 June, 2008, which is 14 days from the date of the Placing Agreement, the Subscription will constitute a connected transaction and the Company is required to fulfill all the relevant requirements in relation to connected transactions under Chapter 20 of the GEM Listing Rules, including obtaining shareholders' approval.

EFFECT ON THE SHAREHOLDING FOLLOWING COMPLETION OF THE PLACING AND THE SUBSCRIPTION

The shareholding in the Company before and after completion of the Placing and the Subscription are summarised as follows:-

Shareholders	Issued share capital before the Placing and the completion of the Subscription		Issued share capital after completion of the Placing but before completion of the Subscription		Enlarged issued share capital following completion of the Subscription (Note 1)	
	Shares (Approximately)	%	Shares (Approximately)	%	Shares (Approximately)	%
Mr. Li	2,924,440,000	54.21	2,024,440,000	37.53	2,924,440,000	45.73
Mr. Yuan	366,464,000	6.79	266,464,000	4.94	366,464,000	5.73
Chi Chuan	62,640,000	1.16	62,640,000	1.16	62,640,000	0.98
Man Au Vivian	31,320,000	0.58	31,320,000	0.58	31,320,000	0.49
Pinpoint Asset Management Group (Note 2)	340,000,000	6.30	790,000,000	14.63	790,000,000	12.35
<i>Public Shareholders:</i>						
Other Placees	0	0	550,000,000	10.20	550,000,000	8.61
Other shareholders	<u>1,669,536,000</u>	<u>30.96</u>	<u>1,669,536,000</u>	<u>30.96</u>	<u>1,669,536,000</u>	<u>26.11</u>
Total	<u>5,394,400,000</u>	<u>100</u>	<u>5,394,400,000</u>	<u>100</u>	<u>6,394,400,000</u>	<u>100</u>

Notes:

- Based on the maximum of 1,000,000,000 Subscription Shares are allotted and issued.
- Pinpoint Asset Management Group is one of the Placees which, upon completion of the Placing, will become a substantial shareholder (as defined in the GEM Listing Rules) and therefore a connected person (as defined in the GEM Listing Rules) of the Company.

Pinpoint Asset Management Group, one of the Placees, is currently holding 340,000,000 Shares which represents approximately 6.30% of the total issued share capital of the Company. To the best knowledge of the Directors, Pinpoint Asset Management Group is a company which is primarily engaged in asset management and is not a connected person of the Company before the Placing. Upon completion of the Placing, Pinpoint Asset Management Group will be interested in 790,000,000 Shares, representing approximately 14.63% of the total issued share capital of the Company, accordingly Pinpoint Asset Management Group will become a substantial shareholder (as defined in the GEM Listing Rules) of the Company and therefore a connected person a connected person (as defined in the GEM Listing Rules) of the Company. The shareholding of Pinpoint Asset Management Group will decrease from approximately 14.63% to approximately 12.35% as a result of the Subscription. As

at the date of this announcement, Pinpoint Asset Management Group has not appointed any directors to the board of Directors and has not informed the board of Directors to appoint any directors before and after the Placing and the Subscription.

APPLICATION FOR THE WAIVER

As at the date of this announcement, Mr. Li and Mr. Yuan, being parties acting in concert under the Code, in aggregate are interested in 3,290,904,000 Shares, representing approximately 61.00% of the existing issued share capital of the Company. After completion of the Placing, Mr. Li and Mr. Yuan in aggregate will be interested in approximately 2,290,904,000 Shares, representing approximately 42.47% of the issued share capital of Company. Immediately upon completion of the Subscription, Mr. Li and Mr. Yuan in aggregate will be interested in approximately 3,290,904,000 Shares, representing approximately 51.46% of the enlarged issued share capital of Company. As the increase in shareholding of Mr. Li and Mr. Yuan in the Company exceeds 2% from the lowest collective percentage holding in the past 12-month ending on and inclusive of the date of the Placing Agreement and the Subscription Agreement, Mr. Li and Mr. Yuan will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Code. Mr. Li and Mr. Yuan have, in accordance with Note 6 on dispensations from Rule 26 of the Code, made an application to the Executive for the Waiver to waive their obligations to make a mandatory general offer under Rule 26 of the Code as a result of the Subscription.

REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is an investment holding company and the principal activities of the Group include research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products in the PRC. As at 31 December, 2007, the cash balance of the Group was approximately RMB19,201,000 and the Group's short-term bank loans amounted to approximately RMB159,500,000 as published in the Company's annual report.

The net proceeds in the amount of HK\$69 million raised from placing and subscription of 500,000,000 Shares in February 2008 has been fully utilised as described below. The Directors consider that the Placing and the Subscription will strengthen the capital base of and the financial position of the Company, and enable the Company to capture any long-term investment opportunity. The amount of the gross proceeds to be raised by the Company from the Placing and the Subscription is approximately HK\$170 million. The expenses to be incurred by the Company in respect of the Placing and the Subscription amount to approximately HK\$5 million,

which will mainly be used for payment of the placing commission as mentioned above and will be borne by the Company. The entire net proceeds from the Placing and the Subscription, after deduction of the placing commission and other related expenses, of approximately HK\$165 million, are intended to be further applied for the future investment in the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC.

In view of the reasons above, the Directors are of the view that the Placing and the Subscription are in the interests of the Company and its shareholders as a whole and the terms are fair and reasonable (including the timing of the Placing and the Subscription as well as the Placing Price and the Subscription Price).

FUND RAISING ACTIVITIES FOR THE PAST 12 MONTHS

Apart from the fund raising activity mentioned below, within the 12 months period immediately prior to the date of this announcement, the Company has not conducted any fund raising activities.

Description	Date of announcement	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
issue of 473,060,000 Undivided Shares as consideration for the acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited	21 September, 2007	HK\$312.0 million	acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited	acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited
placing of 500,000,000 Shares and subscription of 500,000,000 new Shares	19 February, 2008	HK\$69 million	future investment in the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC	investment in the new urea plant with an annual production capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the PRC

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 23 May, 2008 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m on 26 May, 2008.

DEFINITIONS

“AGM”	the annual general meeting of the Company held on 25 April, 2008
“Business Day”	a day (other than Saturday) on which banks in Hong Kong are open for business
“Code”	the Hong Kong Code on Takeovers and Mergers, as amended from time to time
“Company”	Ko Yo Ecological Agrotech (Group) Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of such Executive Director
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
”General Mandate”	general mandate granted to the Directors at the AGM, which authorised the Directors to allot, issue and otherwise deal with new Shares not exceeding 20% of the aggregate nominal amount of the Shares in issue on that date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Mr. Li”	Li Weiruo, an executive Director
“Mr. Yuan”	Yuan Bai, an executive Director
“PRC”	the People’s Republic of China

“Placees”	the placees of the Placing Shares under the Placing
“Placing”	placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agent”	First Shanghai Securities Limited, which and its ultimate holding company did not hold any Shares as at the date of this announcement and are independent of and not connected with nor parties acting in concert with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules)
“Placing Agreement”	the agreement entered into by the Company, the Vendors and the Placing Agent on 22 May, 2008 in relation to the Placing
“Placing Price”	price payable for the Placing Shares at HK\$0.17 per Placing Share
“Placing Shares”	the 1,000,000,000 existing Shares available for the Placing
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription for 1,000,000,000 new Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement entered into between the Company and the Subscribers on 22 May, 2008 in relation to the Subscription
“Subscription Price”	price payable for the new Shares in respect of the Subscription at HK\$0.17 per Share

“Subscription Share(s)”	up to 1,000,000,000 new Shares which is equivalent to the number of Placing Shares placed by the Placing Agent under the Placing Agreement to be issued and allotted under the Subscription Agreement
“Undivided Shares”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company before the sub-division of each of the issued and unissued Undivided Shares into five Shares, details of which are set out in the announcement of the Company dated 21 September, 2007
“Vendor(s)” or “Subscriber(s)”	Mr. Li and Mr. Yuan
“Waiver”	the waiver from the Executive waiving the Subscribers’ obligation to make a mandatory general offer to the holders of Shares under Rule 26 of the Code as a result of the issue and allotment of the Subscription Shares to the Subscribers pursuant to the terms and subject to the conditions of the Subscription Agreement
“%”	per cent.

By Order of the Board
Ko Yo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

Hong Kong, 23 May, 2008

As at the date of this announcement, the executive Directors are Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian and Mr. Li Shengdi; the independent non-executive Directors are Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (a) the information contained in this announcement is accurate and complete in all material respects and not misleading; (b) there are no other matters the omission of which would make any statement in this announcement misleading; and (c) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of its posting and on the Company’s website at <http://www.koyochem.com>.